

FY06 Data Rules

Health and Primary Education Expenditure: MCC primarily relies on Health and Primary Education Expenditure data reported by national governments. In the data request to Candidate Countries, MCC requests inclusion of all government expenditures, including sub-national expenditures (both current and capital) and the consolidated public sector (i.e. state-owned enterprises and semi-autonomous institutions), but exclusion of donor funds unless it is not possible to disaggregate them. All data are requested in current local currency (not a constant base year, not dollars). In the absence of country-reported data, MCC relies on expenditure data from the World Bank's *World Development Indicators*.

Fiscal Policy: U.S. Embassies typically collect fiscal policy data through a Candidate Country's Ministry of Finance. In calculating the fiscal balance, donor funds are included in total expenditures and both revenues and expenditures include the consolidated public sector (i.e. state-owned enterprises and semi-autonomous institutions). To the maximum extent possible, MCC used data from the last completed fiscal year. All of these data were then cross-checked with IMF sources – in particular, the World Economic Outlook (WEO) – to ensure their accuracy.

Inflation: MCC's primary source for inflation data is the IMF's International Financial Statistics (IFS). In the absence of IFS inflation data, MCC currently uses annual inflation data reported in the WEO database.

Trade Policy: In preparation for the 2006 Index of Economic Freedom, The Heritage Foundation re-scaled their trade policy index and provided the data to MCC. The new grading scale is as follows:

Trade Policy Grading Scale

Score	Levels of Protectionism	Criteria
1	Very low	Weighted average tariff rate less than or equal to 2.5%
1.5	Low	Weighted average tariff rate greater than 2.5% but less than or equal to 5 %
2	Low	Weighted average tariff rate greater than 5% but less than or equal to 7.5%
2.5	Moderate	Weighted average tariff rate greater than 7.5% but less than or equal to 10%
3	Moderate	Weighted average tariff rate greater than 10% but less than or equal to 12.5%
3.5	High	Weighted average tariff rate greater than 12.5% but less than or equal to 15%
4	High	Weighted average tariff rate greater than 15% but less than or equal to 17.5%
4.5	Very high	Weighted average tariff rate greater than 17.5% but less than or equal to 20%
5	Very high	Weighted average tariff rate greater than 20%

Where there is evidence that non-tariff barriers or corruption within the customs service create a significant impediment to trade, the Heritage Foundation adds an additional point to country scores.

Control of Corruption, Government Effectiveness, Rule of Law, Voice & Accountability, and Regulatory Quality

For ease of interpretation, MCC has adjusted all World Bank Institute indicator medians to zero. Country scores are calculated by taking the difference between actual scores and the median.¹

Example: Voice & Accountability (Low Income Countries)

For Low Income countries, the actual Voice & Accountability median is -.6783. In order to set the median at zero, we simply add .6783 to every country's score. Therefore, Armenia's Voice & Accountability score, which was originally -.6596, is adjusted to .0277.

Passing Performance on Discrete Variables: For indicators that are discrete variables (Civil Liberties, Political Rights, and Trade Policy), the median value covers a range of percentiles. Since these ranges can be large, we apply the following data rule: a country with a median score passes when the average of the range exceeds 50%.² If the average of the range is equal to or less than 50%, MCC treats the median as a failing score.

“Substantially Below the Median” Performance on Discrete Variables: MCC defines “substantially below the median” as the bottom 25th percentile. In the case of discrete variables, the 25th percentile falls within a range of percentiles. To determine “substantially below the median” performance, MCC first identifies the range within which the 25th percentile falls. It then averages the upper bound and lower bound of that range. If the average exceeds the 25th percentile, that particular discrete value is *not* considered “substantially below the median.” However, if the average of the upper bound and lower bound is equal to or less than the 25th percentile, the discrete value is considered a “substantially below the median” performance.

Example: Political Rights and Civil Liberties (Low Income Countries):

For Low Income Countries, the Political Rights median is 5. A score of 5 covers the 40th to 54th percentile. The average of this range (the 47th percentile) does not exceed the 50th percentile. Therefore, Low Income Countries must perform receive a score of 4 or below to pass this indicator. By comparison, the Civil Liberties median for Low Income Countries of 4 covers the 47th to 68th percentile. The average of this range clearly exceeds 50%. Therefore, the median is treated as a passing score.

To determine “substantially below the median” performance on the Political Rights indicator, MCC averaged the upper bound and lower bound of the percentile range that a hypothetical country at the 25th percentile would fall within. A score of 6 represents the 17th to 40th percentile. The average of this upper bound and lower bound exceeds the 25th percentile. Therefore, a 6 on the Political Rights indicator does not qualify as a “substantially below the median” performance for Low Income Countries. Only countries that receive a score of 7 on the Political Rights

¹ Note: The median can be a non-zero value when there is an even number of countries. For FY06, the Control of Corruption median for the Low Income peer group is -.04.

² Only non-missing values were used in the calculation of medians.

indicator will be treated as “substantially below the median” in FY06. In the case of the Civil Liberties indicator, the 25th percentile falls within an upper bound of 47 and a lower bound of 22 captured by a score of 5. Since the average of this range exceeds the 25th percentile, MCC does not consider a 5 substantially below the median. Only Low Income Countries that receive a 6 or a 7 on the Civil Liberties indicators will be considered “substantially below the median.”

Passing and “Substantially Below” Performance on Political Rights, Civil Liberties, and Trade Policy

Political Rights (Low Income Countries)

Score	Percentile Range
1	99-100%
2	85-99%
3	67-85%
4	54-67%
5	40-54%
6	17-40%
7	0-17%
Median = 5	
Average of Median’s Percentile Range = 47	
Passing Score = 4	
Substantially Below the Median = 7	

*A lower score is better.

Political Rights (Lower Middle Income)

Score	Percentile Range
1	81-100%
2	56-81%
3	41-56%
4	28-41%
5	22-28%
6	6-22%
7	0-6%
Median = 3	
Average of Median’s Percentile Range = 48.5	
Passing Score = 2	
Substantially Below the Median = 5	

*A lower score is better.

Civil Liberties (Low Income Countries)

Score	Percentile Range
1	99-100%
2	90-99%
3	68-90%
4	47-68%
5	22-47%
6	9-22%
7	0-9%
Median = 4	
Average of Median's Percentile Range = 57.5	
Passing Score = 4	
Substantially Below the Median = 6	

*A lower score is better.

Civil Liberties (Lower Middle Income)

Score	Percentile Range
1	88-100%
2	69-88%
3	31-69%
4	22-31%
5	6-22%
6	0-6%
7	0%
Median = 3	
Average of Median's Percentile Range = 50	
Passing Score = 2	
Substantially Below the Median = 5	

*A lower score is better.

Trade Policy (Low Income Countries)

Score	Percentile Range
1	100%
1.5	98-100%
2	95-98%
2.5	81-95%
3	72-81%
3.5	53-72%
4	42-53%
4.5	28-42%
5	0-28%
Median = 4	
Average of Median's Percentile Range = 47.5	
Passing Score = 3.5	
Substantially Below the Median = 5	

*A lower score is better.

Trade Policy (Lower Middle Income)

Score	Percentile Range
1	100%
1.5	100%
2	92-100%
2.5	80-92%
3	68-80%
3.5	48-68%
4	20-48%
4.5	12-20%
5	0-12%
Median = 3.5	
Average of Median's Percentile Range = 58	
Passing Score = 3.5	
Substantially Below the Median = 4.5	

*A lower score is better.